



2002

Annual Report

WORKERS' COMPENSATION FRAUD PREVENTION AND COMPLIANCE UNIT

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INTRODUCTION

The Workers' Compensation Fraud Prevention Unit (the "Unit") resides within the Rhode Island Department of Labor and Training. The Unit's work, pursuant to R.I.G.L. 42-16.1-12, is directed at reducing and preventing fraud in the workers' compensation system as well as ensuring employer and insurer compliance with the requirements of the Workers' Compensation Act. The Unit is required by statute to prepare a report each year describing its activities and setting forth its findings, conclusions and recommendations.

**This Annual Report of the Unit covers the period
January 1, 2002 through December 31, 2002.**

Message of the Chief Investigator

The Workers' Compensation Fraud Prevention & Compliance Unit saw an active year in 2002! Statistics are higher, more employers were identified that should carry workers' compensation coverage, and allegations of criminal fraud continue to be investigated. We intend to continue that momentum as we move through 2003.

The year 2002 marked the first full year of our new 'Business Sweep Program', and it proved to be very successful! The program involves the Unit investigators in fieldwork investigations, visiting businesses in person to ensure there is workers' compensation insurance coverage and that the required workers' compensation postings are in place. **Nine hundred, seventy-two (972)** business visits were made and more are planned for '03.

In conjunction with our Business Sweep Program, there has been increased activity against those that fail to comply with the provisions of the Workers' Compensation Act. The Unit has increased the tempo of enforcement activity with penalties being imposed against those employers who have failed to file first reports of injury, or against insurers for failure to report insurance coverage for a business. Additionally, penalties have been levied against businesses for not having required insurance coverage. Our staff attends lack of insurance hearings and presents evidence. Each case is followed up and monitored to its eventual conclusion.

Fraud allegations continue to be aggressively investigated by the Unit. Some of the reviews have turned into criminal investigations and from those, twelve cases were forwarded to the Department of Attorney General in 2002 for prosecutorial consideration.

Prevention programs were also a key highlight in the continuing work undertaken by the Unit. Fraud prevention brochures, posters, and speaking engagements are promoted as key methods the Unit utilizes in its publicity campaign.

The Unit gratefully acknowledges the efforts of all those who have assisted in the fight against workers' compensation fraud. We specifically acknowledge the effort expended by the Department of Attorney General in prosecuting workers' compensation fraud.

Respectfully submitted,

David B. Groeneveld, Chief
Workers' Compensation Fraud Prevention
and Compliance Unit

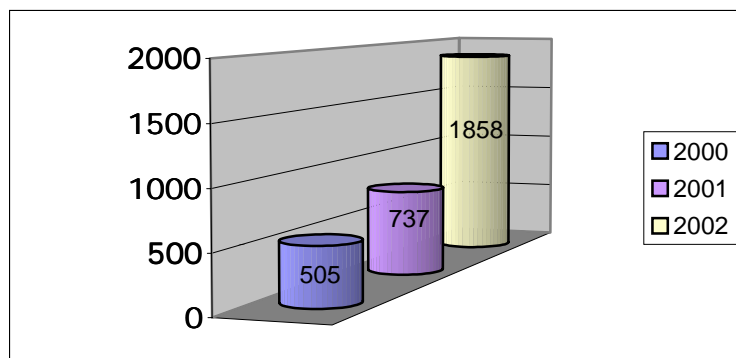
INVESTIGATIVE ANALYSIS

The Referral Process

The Unit receives many complaints from the Fraud Unit Hotline (401) 462-8110. The hotline number is required by statute and is designed to encourage public participation in the reporting and preventing of workers' compensation fraud. Complaints are also received from the insurance industry, medical community, employers, law enforcement agencies, the Workers' Compensation Court, and citizens. The Unit initiates additional investigations through the Business Sweep Program and a computer match program that matches wages against workers' compensation benefits.

One thousand, eight hundred, fifty-eight (1,858) complaints/referrals/requests for inquiry were received during the current reporting period, compared to seven hundred, thirty-seven (737) in 2001 and five hundred, five (505) in 2000. The increase is primarily due to the Unit's Business Sweep Program and continued work with compliance investigations.

COMPLAINTS / REFERRALS / REQUESTS FOR INQUIRY



Reporting Period: 01/01/02 through 12/31/02

Investigations

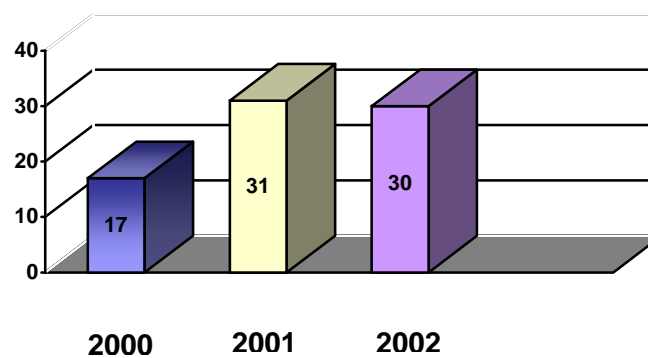
The Unit has, in place, a case management system to track each complaint and investigation. Each complaint receives an initial screening and is entered on the database. Those complaints warranting further review are assigned to an investigator. Each complaint is prioritized so the Unit's investigative resources are utilized efficiently. In fraud cases once all the information has been received and all known leads exhausted, the evidence is examined in light of the criminal standard of "proof beyond a reasonable doubt." Referrals to the Department of Attorney General for prosecutorial consideration are made at this point. Compliance investigations remain open until workers' compensation coverage has been established and penalties paid.

FRAUD HIGHLIGHTS

Fraud Referrals

During this reporting period one hundred, one (101) fraud referrals were received; forty-six (46) were opened for investigation. Thirty (30) referrals were from the insurance industry, down slightly from thirty-one (31) received in 2001. Referrals from insurers are critical because typically they contain the detailed, specific information necessary for a successful investigation.

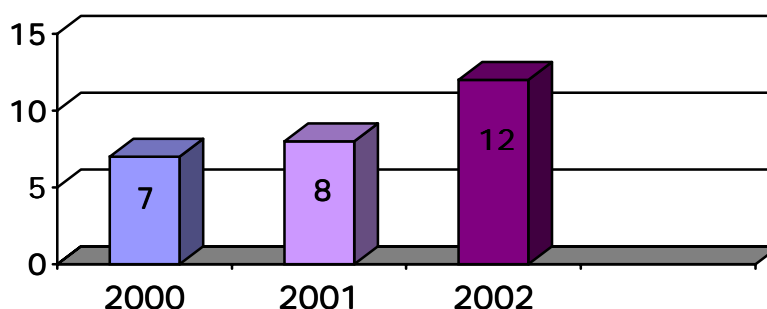
INSURER FRAUD REFERRALS



Criminal Cases

Cases investigated by the Unit are forwarded to the Department of Attorney General for prosecutorial review when an investigation establishes evidence of workers' compensation fraud. Twelve (12) cases were forwarded to the Department of Attorney General during this reporting period.

REFERRALS TO THE DEPARTMENT OF ATTORNEY GENERAL



Two (2) of these cases were criminally charged and were disposed of through a restitution agreement. Charges included obtaining money under false pretenses, workers' compensation fraud, false statements to a treating physician and filing false documents. One defendant received a ten (10) year suspended prison term with ten (10) years probation. Five (5) cases are pending review by the Attorney General's Department and five (5) were criminally charged and await court disposition. The resolved criminal cases resulted in court ordered restitution of **\$10,508.13** to insurers/employers and **\$583.15** to the Workers' Compensation Administrative Fund. An additional five (5) cases remain before the criminal courts; four (4) cases are awaiting grand jury action.

COMPLIANCE CASES

During this reporting period Unit investigators responded to allegations that businesses were operating without insurance, and as a result, seven hundred, eighty-five (785) investigations were initiated. A total of **\$87,514.30** in penalties were ordered against employers for failure to maintain workers' compensation coverage. Insurers who failed to report policy information to the Department were penalized **\$13,800**, collectively. A total of **\$23,270** in penalties was collected against employers for failure to timely file First Reports of Injury.

Filing fees totaling **\$9,515** were collected from employees who filed a notice waiving their rights to workers' compensation and claiming their common law rights.

BUSINESS SWEEP PROGRAM

During this reporting period nine hundred, seventy-two (972) businesses were visited. Following these visits **one hundred, three (103)** businesses purchased workers' compensation insurance adding a total recovered premium of **\$130,067.97** to the workers' compensation system. This new program is designed as a proactive measure to ensure compliance with the Workers' Compensation Act coverage provisions.

Unit investigators routinely follow up on telephone calls received alleging a business does not have workers' compensation coverage. In the Business Sweep Program, each of the seven investigators is assigned specific cities and towns throughout the State. Each investigator is responsible for visiting businesses within their assigned territory to ensure the business has workers' compensation insurance or is exempt

from coverage, and has the required State poster in the workplace with the current policy information. Investigators provided five hundred and one (501) posters to those employers carrying the required workers' compensation insurance. Presence of the poster in the workplace is key in that it provides information on how and where to report an injury as well as information for the injured worker regarding their right to choose medical treatment. The telephone number for the Department's Education Unit, a valuable source of information for injured workers, is also referenced on the poster.

INDEPENDENT CONTRACTOR DESIGNATIONS

In 2002 six thousand, seven hundred and fifty-six (6,756) designation forms were filed with the Department and eight forms were rescinded. In 2001 seven thousand, seven hundred and fifty-four (7,754) designations were processed.

The names of independent contractors that have filed with the Department, the date of the filing, the name of the hiring entity, and the date the form was rescinded, if applicable, is available on the Department's website. This database is a valuable source of information for insurers and hiring entities.

PREVENTION EFFORTS

The Unit is statutorily charged with devising a plan to reduce and prevent fraud in the workers' compensation system. Prevention efforts are aimed at stopping fraud before it happens. The Unit's presence in the State serves as a vital part of fraud prevention; by making itself visible through investigations, news releases, employer visits, public service announcements, group presentations, and training, the Unit spreads the word that fraud will not be tolerated. While one cannot put a dollar value on the effects of these efforts in reducing fraud, the deterrent effect is well recognized by professionals in the insurance industry.

The Unit's Business Sweep Program completed its first full year. This Program is a prevention effort aimed at getting the word out that coverage must be maintained, work-related injuries must be reported, and the workers' compensation poster be displayed in a conspicuous place.

Other prevention efforts undertaken by the Unit include:

- ❑ The development of a revised independent contractor pamphlet addressing frequently asked questions
- ❑ The Unit's fraud prevention poster was revised for distribution to employers. The poster encourages the reporting of suspected workers' compensation fraud and provides the Unit's hotline number. Businesses are encouraged to contact the Unit for a new poster.
- ❑ Advertisement of the Unit's new hotline number 401-462-8110. The hotline provides a means for individuals to report suspected fraud anonymously, and has proven to be a valuable resource.
- ❑ Continued publication of the Fraud Watch, the Unit's biannual newsletter, with a circulation of one thousand (1,000) being mailed to insurance companies, businesses and other persons interested in workers' compensation. The newsletter includes information regarding recent fraud and compliance cases, fraud prevention and detection information, addresses recent changes to the Workers' Compensation Act, and provides dates for scheduled training sessions. Anyone who wishes to subscribe to the newsletter should contact the Unit.

- ❑ Unit members meet with individuals and groups to discuss prevention issues including indicators of workers' compensation fraud, responsibilities of parties within the workers' compensation system, how to report suspected fraud, and the role of the Fraud Unit in preventing fraud.
- ❑ Continued Unit participation in workers' compensation workshops, which are sponsored by the Education Unit. The workshops offer an opportunity to address any questions that employers or the insurance industry may have in all aspects of the workers' compensation system.
- ❑ The development of our new Business Sweep pamphlet, an informational tool for employers
- ❑ A significant deterrent effect is realized through periodic news releases. The Department of Attorney General issues press releases following the charging or resolution of certain criminal cases. The Department of Labor & Training issues press releases regarding the outcome of hearings held on businesses that were penalized for failure to maintain workers' compensation coverage. The Unit often sees an increase in referrals after a press article.
- ❑ Investigators meet with claims' adjusters to discuss the necessary forms, steps and documentation necessary to prove a workers' compensation fraud case. These forms are part of the claims process, but if not properly done, can be the basis for a finding that the evidence is insufficient to prove workers' compensation fraud. Topics discussed

include: how to properly conduct surveillance; the proper method of sending Report of Earnings forms to claimants; ensuring that the statutorily required fraud language is on the back of the benefit check; and the importance of the Independent Medical Exam Questions (1) Have you returned to work since your injury?; (2) Have you worked in any capacity since your injury?; (3) What type of activities do you engage in?; and (4) What do you do on a daily basis? Insurance company personnel, third party administrators and employers are encouraged to contact the Unit to schedule on-site training.

- ❑ The Unit is on-line with an email address at wcfraud@dlt.state.ri.us, and can also be accessed through the Department of Labor & Training website at www.dlt.state.ri.us/wc.

PERSONNEL

A Special Assistant Attorney General, within the Department of Attorney General, has been designated to assist the Unit in hearings, investigations, prosecuting criminal cases, and other proceedings relating to the prevention of fraud and abuse.

The chief investigator receives complaints, assigns cases, and maintains a case-management program. A team of seven investigators is assigned to the Unit. An attorney works with investigators and the chief to ensure that each case is on course legally. An investigative aide and a compliance assistant support the investigators, chief and legal counsel. A staff analyst receives, screens and processes independent contractor forms.

TRAINING

To ensure that the Unit staff remains informed of current developments, both in the workers' compensation area and in the area of criminal investigations, training and education is given ongoing emphasis.

Fraud Unit members have participated in various training seminars this past year, either individually or by group, including:

- ❑ Principles of Management – 18-hour Core Course, conducted by the Management Development Institute, sponsored by the Office of Training & Development through the R.I. Department of Administration
- ❑ The Administrative Procedures Act: What's New?, speaker, Robert E. Hardman, Esq., sponsored by the R. I. Law Center through the R.I. Bar Association
- ❑ The Fifth Annual New England Workers' Compensation Educational Conference, sponsored by the International Workers' Compensation Foundation and hosted by the Workers' Compensation Court
- ❑ Premium Evasion Fraud, sponsored by the Insurance Fraud Bureau of Massachusetts

MEMBERSHIP AFFILIATIONS

A continuing goal of the Unit is to develop an informational link with law enforcement and other investigative units in the fight against workers' compensation fraud. Investigators in the Unit are affiliated with the 'The Rhode Island Fraud Investigators' Association', the 'National White Collar Crime Center', the 'Rhode Island Detectives' Association', and the 'Association of Certified Fraud Examiners (CFE)'.

FUTURE INITIATIVES

- ☐ Publicity campaign highlighting our hotline
- ☐ Electronic filing of independent contractor applications
- ☐ Explore the feasibility of cross matching prisoner name data against workers' compensation recipients' data
- ☐ Revising the current web page for the Workers' Compensation Fraud Prevention and Compliance Unit
- ☐ Encourage insurers to work closely with the Unit on fraud identification and referrals
- ☐ Further refining the ability to cross match wages and workers' compensation benefits
- ☐ Continuation of the Business Sweep Program with the goal of personally reaching as many employers as possible

SUMMATION

The Unit's varied programs of prevention, investigation and compliance continue to ensure that the workers' compensation system remains a credible institution for the benefit of the injured worker. Additionally, the Unit will monitor and follow-up when First Report of Injury forms are not filed, as required by law, and with insurers who fail to report employer coverage information to the Department of Labor and Training. The Unit looks forward to meeting those and whatever other challenges which may arise throughout the new year.